

July 29, 2021

ARRC Formally Recommends Term SOFR

Announcement Completes the Toolkit that Market Participants Need to Accelerate Their Transition Away From LIBOR; Marks Final Step in the ARRC's Paced Transition Plan

The Alternative Reference Rates Committee (ARRC) today announced that it is now formally recommending [CME Group's forward-looking Secured Overnight Financing Rate \(SOFR\) term rates](#) (SOFR Term Rates), following the completion of [a key change](#) in interdealer trading conventions on July 26, 2021 under the SOFR First initiative. The ARRC's formal recommendation of SOFR Term Rates is a major milestone in the transition away from U.S. dollar (USD) LIBOR, providing market participants with an essential transition tool and marking the completion of the [Paced Transition Plan](#) that the ARRC outlined in 2017 and has been working toward since.

The successful SOFR First convention change, along with the continued growth in SOFR cash and derivatives markets, has allowed the ARRC to recommend SOFR Term Rates, consistent with the [principles](#) and [indicators](#) it established to do so.

"This formal recommendation of SOFR Term Rates is an achievement for the USD LIBOR transition specifically and for financial stability overall. This concludes the ARRC's Paced Transition Plan and market participants now have all the tools they need as we enter the transition's homestretch," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "With just five months until no new LIBOR, significant work remains and I urge everyone with LIBOR exposures to immediately take action and base their new contracts on forms of SOFR."

"With this step, market participants now have every tool they need to transition from LIBOR," said Randal K. Quarles, Vice Chair for Supervision of the Federal Reserve Board and Chair of the Financial Stability Board. "All firms should be moving quickly to meet our supervisory guidance advising them to end new use of LIBOR this year."

"We are seeing great momentum in the transition toward SOFR and today's recommendation will undoubtedly accelerate that progress," said John C. Williams, President of the Federal Reserve Bank of New York and Co-Chair of the Financial Stability Board's Official Sector Steering Group. "Keep in mind: the end of 2021 and of new LIBOR is coming quickly, so take action now to build a solid SOFR foundation and ensure you are ready."

Today's formal recommendation follows the ARRC's July 21 [announcement](#) of [conventions](#) and [recommended best practices](#) for the use of the SOFR Term Rates. Market participants can now employ these materials when using the SOFR Term Rates in legacy fallbacks and new contracts to prepare for LIBOR's end.

In conjunction with this development, the ARRC also released a [factsheet](#) outlining key steps leading to this point, SOFR's strengths, and upcoming milestones.

ALTERNATIVE REFERENCE RATES COMMITTEE

-  • Publication of RFP for an ARRC-recommended administrator of a forward-looking SOFR term rate
 - **Completed:** September 10, 2020
-  • Publication of principles for the ARRC's recommendation of a forward-looking SOFR term rate
 - **Completed:** April 20, 2021
-  • Publication of market indicators for the ARRC's recommendation of a forward-looking SOFR term rate
 - **Completed:** May 6, 2021
-  • Identification of the leading RFP proposal
 - **Completed:** May 20, 2021
-  • Publication of conventions and use cases for how best to employ the SOFR Term Rates
 - **Completed:** July 21, 2021
-  • Market indicators allow the ARRC to formally recommend a SOFR term rate
 - **Completed Today: July 29, 2021**

About the ARRC

The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. Securities and Exchange Commission, and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified the SOFR as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its [Paced Transition Plan](#), with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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